HUD CONSUMER BULLETIN

INVESTMENT OF INSTITUTIONAL FUNDS IN FHA INSURED MORTGAGES

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Robert C. Weaver, Secretary
FEDERAL HOUSING ADMINISTRATION
Washington, D.C. 20410

". . . millions of Americans can come toward attainment of new homes in the future— as millions already have under that program (the FHA mortgage insurance program) in the past."

Lyndon B. Johnson

"The bulk of home financing in the future, as in the past, will come from the private sources.

"We must not only continue to rely upon those investing institutions which are now mortgage oriented, but we must develop ways in which the non-mortgage institutions can invest . . . to steer dollars into much-needed housing."

Robert C. Weaver

Foreword

Many knowledgeable institutional investors hold large portfolios of mortgages insured by the Federal Housing Administration. The return on such investments is attractive, considering the excellent security and liquidity of the mortgages.

Investors in FHA-insured mortgages include a number of universities and colleges.
We invite nonprofit organizations, includ-
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Reasons for Investing

In communities across the country, demand for home financing exceeds the level of investment funds available to local mortgage originating companies. The Federal Housing Administration is working with local mortgage lenders to alleviate this situation.

Significant amounts of new funds may be made available for mortgage financing through investment of endowment and other funds of colleges and universities. FHA-insured mortgages offer attractive investment opportunities.

By placing funds in such mortgages, educational institutions will realize a good return on an investment with the advantage of insurance by the U. S. Government. At the same time, they will be performing a local civic service which in turn will encourage economic growth in our communities.

Yield

The return on investment is remarkably high, considering the double security involved—the mortgaged property and the FHA loan insurance.

Security

An FHA-insured mortgage is secured by a first lien on the property. In addition, the investment is protected by the provisions of the FHA insurance contract.

Under the contract of mortgage insurance, the investor making a claim receives the unpaid principal of the loan, plus advances made by the mortgagee for taxes, property insurance premiums, and mortgage insurance premiums, plus two-thirds of the cost of acquiring and conveying title to the Secretary of Housing and Urban Development. The settlement also includes interest at the current debenture rate from the date of default to date of settlement.

The FHA Commissioner has the option of paying claims in cash or in interest-bearing debentures. Currently, FHA is paying claims in cash.

Claims are settled promptly. The lender receives a check for 90 percent of the unpaid mortgage balance usually within 10 days following FHA receipt of the claim. The remaining amount is generally paid within 45 days after the claim papers and title evidence are received by FHA.

Liquidity

About 15,000 mortgagees throughout the country have been approved by FHA to deal in FHA-insured mortgages. These 15,000 mortgagees maintain about 10,000 branch offices performing full mortgage operations. Trading in insured mortgages is active. Some 402,000 home mortgages insured by the FHA were bought and sold by approved mortgagees in 1965.

The market for FHA-insured mortgages has national scope. Investors can buy mortgages on properties in areas remote from their headquarters with the assurance that the mortgages will have the same high quality as those on properties in their own communities.

Quality of FHA-Insured Mortgages

Before insuring a mortgage, FHA reviews the entire transaction in accordance with underwriting standards developed by the agency. It examines every property on which mortgage insurance is to be placed and, in the case of new construction, ap-[illegible]ves plans and inspects during construc-[illegible] that the work meets FHA's

the need of foreclosure action and a resultant claim on FHA for insurance benefits.

Also, FHA or other supervisory governmental agencies make periodic examinations of approved lenders to assure that mortgages are serviced in accordance with acceptable mortgage practices of prudent lending institutions.

These requirements result in mortgages that have high investment quality, which is uniform in character nationwide. This facilitates the marketing of FHA-insured mortgages and enhances their standing as investments.

Supply of FHA-Insured Mortgages

There is a national market in FHA-insured mortgages. Investors will find that the supply is ample. For instance, the total of home mortgages insured by FHA in 1965 was about $7.5 billion. By comparison, all publicly offered corporate bonds, notes, and debentures totaled $5.6 billion. Other mortgage insurance, in 1965, brought FHA's total mortgage business that year to about $8.1 billion.

Who Invests in These Mortgages

Life insurance companies, commercial banks, savings banks, and savings and loan associations are the major investors in FHA-insured mortgages. A variety of other investors participate. Among them are State and municipal funds for public employees' retirement systems, philanthropic foundations, credit unions, and college endowment funds.

Some of the universities and colleges investing in FHA-insured mortgages are:

- University of Puerto Rico
- Dartmouth College
- Johns Hopkins University
- University of California

Ease and Simplicity

Long-term investors are attracted to FHA-insured mortgages because they are easy and simple to deal in as well as good-quality, high-security loans. Such investors arrange to purchase the mortgages from local mortgage bankers who originate them and arrange to service them for the purchasers.

Monthly payments to principal and interest are remitted to the investor by the local mortgage banker, who also performs other servicing functions for a small fee. Currently, the typical fee runs from 3/8 to 1/2 of one percent.

Note: The statements contained in this bulletin apply primarily to mortgages on one- to four-family dwellings. FHA-insured multifamily mortgages differ in various respects from the home mortgages discussed here. Specific information relating to multifamily mortgages can be obtained from any FHA insuring office, or from the Assistant Commissioner for Multifamily Housing, Federal Housing Administration, Washington, D. C. 20411.

Equal Opportunity in Housing

FHA regulations under the President's Executive Order 11063 of November 20, 1962, require that housing provided with assistance be made available without discrimination because of race, color, creed, or national origin.

The regulations prohibit any person, firm, or group receiving the benefits of FHA mortgage insurance or doing business with FHA from practicing such discrimination in lending or in the sale, rental, or other disposition of the property. Violations may result in discontinuation of FHA assistance.

One- or two-family dwellings which have been occupied by the owner are exempt from the regulations; but if the purchaser of such a home wishes to finance it with an FHA-insured mortgage the lender may not refuse to make the loan because of the buyer's race, color, creed, or national origin.

The FHA in Brief

Since its establishment in 1934, the Federal Housing Administration has written mortgage and loan insurance in a total amount of well over a hundred billion dollars. This amount covers mortgage insurance on millions of homes, on about two million living units in multifamily projects, and on many millions of property improvement loans. Altogether, FHA has helped between 35 million and 40 million families to improve their housing standards and conditions.

Congress provided the FHA mortgage and loan insurance system to help improve housing standards, to promote the use of sound financing methods, and to help keep the mortgage market steady. FHA supports itself through income derived from fees, insurance premiums, and investments. Its insurance reserves are well over a billion dollars.

All loans insured under FHA programs are made by private FHA-approved lenders. FHA does not lend money or build houses.

The first FHA programs dealt with insured home-improvement loans, home-mortgage loans, and rental-housing mortgage loans. Through its 76 field offices
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